



GEOSTRATEGIC COMPETITION AND THE FUTURE OF ASEAN'S HEDGING STRATEGY

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ABSTRACT

Questions about the implications of China's rise have loomed in the international system for quite some time. These questions have become more pertinent as China's global and regional initiatives have begun to grow teeth. With these developments the effects of the geopolitical competition between China and the United States are becoming more tangible, especially in Southeast Asia. Whether or not ASEAN's organizational culture, loosely termed the "ASEAN Way", remains viable will depend on its ability to handle increasing competition between large powers in the region. By necessity, ASEAN must become a regional powerbroker or risk becoming a broken regional power. This paper analyzes the strategies select ASEAN member states employ in their dealings with regional and world powers. This analysis provides a basis for exploring ASEAN's ability to manage geostrategic competition in Southeast Asia. The study finds that, despite the differing perceptions ASEAN member states have of the United States and China, they are unified in their search for a middle road that does not leave them too reliant on either actor. This consensus bodes well for ASEAN's ability to handle increasing competition through hedging. However, if ASEAN wants to maintain hedging as a viable strategy, the association must work to decrease the development gap, curb military adventurism, and strengthen coordination mechanisms.

Introduction

Questions about the implications of China's rise have loomed in the international system for quite some time. These questions have become more pertinent, as China's global and regional initiatives have begun to grow teeth. China has broken ground on a few of its One Road, One Belt infrastructure projects and created the Asia Infrastructure Investment Bank (AIIB) to fund future projects. With these developments, the effects of the geopolitical competition between China and the United States are becoming more tangible, especially in Southeast Asia. For the Association of South East Asian Nations (ASEAN), finding its answer to the challenge of increasing US-Sino competition will test a great many aspects of the organization's character, including ASEAN's centrality and unity.

Recently, in Southeast Asia there has been a flurry of almost parallel initiatives by China and the United States, at times in cooperation with its regional allies, to curry diplomatic capital in the region. Whether or not ASEAN's organizational culture, loosely termed the "ASEAN Way," remains viable will depend on its ability to handle increasing competition between large powers in the region. By necessity, ASEAN must become a regional powerbroker or risk becoming a broken regional power. ASEAN's reliance on consensus based decision making further complicates brokering power in the region as the process can be derailed by one dissenting member.

ASEAN member states (AMS) must work jointly to manage regional and world power competition. If not, individual member states will be more susceptible to external interference and less able to protect their national interests. Moreover, a divided ASEAN will be ineffectual and subsequently forfeit its centrality in the regional architecture of Asia to other institutions or actors.

Since ASEAN is an intergovernmental organization, a thorough understanding of how individual AMS are managing increasing geostrategic competition is needed to fully assess the challenges that a US-Sino rivalry present to the region. In ASEAN, three geostrategic contexts exist in relation to China which can be grouped based on their overall perception of Chinese engagement. Cambodia, Laos, and Thailand are eager to engage with China and have few reservations about growing Chinese influence in the region. Brunei, Indonesia, Malaysia, and Singapore are largely supportive of Chinese economic engagement, but have some strategic interests that are threatened by China's growing assertiveness. Myanmar, the Philippines, and Vietnam not only have several strategic interests threatened by growing Chinese power, but also active disputes with the regional heavy weight.

This paper analyzes how Malaysia, Laos and Myanmar manage their relations with the US and China. It is important to note that each of ASEAN's ten member states employ their own unique strategies in dealing with great powers. However, this study sought to provide an overview of the strategies ASEAN states use to manage US-Sino competition by

analyzing one state from each of the region's three geostrategic contexts: Malaysia, Laos, and Myanmar. This analysis is then used as a basis for exploring ASEAN's ability to manage geostrategic competition in Southeast Asia.

Malaysia

Despite having overlapping territorial claims with China in the South China Sea, Malaysia is expanding high level economic and security ties with China. Conversely, Malaysia's relationship with China has not proven to be an obstacle for developing its relationship with the US.

Malaysia is expanding trade partnerships with both the US and China. In 2013, China and Malaysia signed a five-year plan to increase bilateral trade to \$160 billion by 2017.^[1] In the same year, China led the US in bilateral trade with Malaysia, roughly \$107 billion to \$40 billion.^[2] In 2015, Malaysia and the US along with ten other states across the Asia-Pacific (except China) concluded negotiations on the Trans-Pacific Partnership (TPP) free trade agreement.

Under the new agreements and initiatives, investments in Malaysia will surely expand for both the US and China. As of 2012, the US leads China in terms of foreign direct investment (FDI) in Malaysia, \$15.5 billion to \$783 million.^[3] However, China is expanding its investments in Malaysia. During a recent visit to Malaysia in late November of 2015 by Chinese Premier Li Keqiang, China and Malaysia signed

several memorandums of understanding (MoU). These agreements enhanced cooperation in many sectors which are important to China's One Road, One Belt initiative including transportation and international trade.^[4] As a part of the agreements, Port Klang, Malaysia's busiest port and a key site for the Maritime Silk Road (MSR) portion of the One Road, One belt initiative, entered into business alliances with ten ports across China. Chinese investors are involved in the development of a deep sea terminal in Kuantan and several others in Melaka.^[5] Shortly after Premier Li's visit, it was announced that \$2.3 billion of energy assets from 1Malaysia Development Berhad, a debt-addled state sovereign wealth fund, were to be purchased by the state-owned China General Nuclear Power Corporation. The acquisition was welcomed by the Malaysian government as it is in the process of dismantling the failed enterprise, which has amassed over \$11 billion of debt and was cited as a factor that contributed to the depreciation of the Malaysian Ringgit.^[6] Chinese companies have been bidding on rail and road projects across ASEAN. In December 2015, a Chinese firm was awarded the \$1.5 billion Gemas-Johor Bahru electrified double-tracking rail project.^[7]

Malaysia maintains military ties with both the US and China. In September 2015, Malaysia and China had their first ever a joint military exercise in the Strait of Malacca. Codenamed "Peace and Friendship 2015," the exercise was the largest to date between China and an ASEAN member state.^[8] US-Malaysian military cooperation focuses on counter-terrorism. Malaysia allows the U.S Navy to fly its spy planes

from Malaysian airstrips and dock its vessels at Malaysian ports.^[9] Moreover, Malaysia has done a fair amount to signal its South China Sea grievances. Unlike the states of Mainland Southeast Asia and American ally, South Korea, Malaysia did not send a top-level delegation to China's high-profile military parade to commemorate the end of World War II.^[10] Additionally, China received heavy criticism at the 2015 East Asian Summit, which was chaired by Malaysia. Malaysia's prominent treatment of the South China Sea issues in its chairmen statement ran roughshod over China's adjurations to keep the issues out of multilateral discussions.^[11]

In its relations with the US and China, Malaysia follows an even-handed foreign policy that seeks to maximize benefits by keeping both powers actively engaged. Malaysia avoids needlessly antagonizing either big power and does not allow disagreements in one area to affect productive cooperation in another. It maintains amicable partnerships with both the US and China, but will judicially protect its national interest from encroachment by either partner.

Laos

Laos and Cambodia have the most pro-China tilt. Chinese economic influence is pervasive throughout the two states. Currently, western investment in these states is dwarfed by its Chinese counterpart. Between 2009 and 2011, the US Lower Mekong Initiative (LMI) provided \$425 million to development projects in Cambodia, Laos and the three

other states of mainland Southeast Asia.^[12] Since its creation in 1966 through 2014, the US and Japanese-led Asian Development Bank (ADB) have provided \$2.11 and \$1.78 billion in loans to Cambodia and Laos respectively.^[13] However, in 2013 alone, China invested more than \$2.5 billion in each of the two States.^[14] Laos will be of particular interest to China and the US as the 2016 chairmen of ASEAN.

When compared to China, the US has fewer substantial economic or diplomatic ties with Laos. China is Laos' largest export market, accounting for 46.1% of all Laos' exports in 2014. It is also the largest foreign investor, with \$6.6 billion worth of investments by Chinese firms.^[15] Surprisingly enough, even though the US has more robust ties with Cambodia, recent US diplomatic efforts have found a warmer reception in Laos. This is due to several factors: the government's desire to correct their over reliance on China, the position of Laos as the 2016 chairman of ASEAN, and recent political shifts that have reemphasized the country's traditional political orientation towards Vietnam.

Recently, political shifts in Laos were on display at the country's 10th Party Congress, the meeting at which the one-party states selects its new top leaders. The Congress decided to replace the party chief and the deputy prime minister who were closely aligned with Beijing. They were staunch advocates of the Boten Vientiane Railway. The railway connects China and Thailand through Laos and is a crucial leg of the Chinese backed Pan-Asia Rail Network that will link Southwest China to Singapore. Some government officials felt

the project was too much of an economic concession to China. The dismissal of the party chief and the deputy prime minister has largely been viewed as a move to lessen Chinese influence in Laos and a nod to the interests of Vietnam, a historical ally of Laos.[\[16\]](#) As competing Vietnamese and Chinese territorial claims on the Paracel Islands aggravate tensions between the two states, stronger political ties between Laos and Vietnam will serve to distance Laos from China.

Considering the changing political climate in Laos, it might be premature to dismiss Laos' commitments to ASEAN unity, maritime rights, and avoidance of militarization of the South China Sea. Former Prime Minister, Thongsing Thammavong, conveyed the aforementioned commitments to US Secretary of State John Kerry during Kerry's recent 2016 visit to Laos.[\[17\]](#) Laos is feeling fairly secure in its political relationship with China. While the Boten Vientiane Railway may turn out to be a financial liability for Laos, it has made Laos an indispensable part of China's One Road, One Belt initiative.[\[18\]](#) The initiative is not just about winning friends; it is critical in Beijing's plans to spur on growth in its underdeveloped hinterlands, prime new markets for Chinese goods, and manage the economic changes stemming from China's shift to a consumption based economy.[\[19\]](#) Right now, Laos is just as important to China as China is to Laos. This political equilibrium gives Laos the flexibility to shore up relations with Vietnam or explore increased cooperation with the US.

Myanmar

Too often Myanmar is grouped with Laos and Cambodia as a Chinese satellite state. This perspective fails to take into account the complexities of the bilateral relations between the two countries, which have ranged from ambivalent, highly contentious to amicable. Since Myanmar's independence, the most constant feature of its foreign policy has been strict neutrality. For much of their history, Myanmar and China have peacefully coexisted. It has not precluded a number of irritants from developing over the course of their relations. The major irritant being Chinese support for the Burmese Communist Party (BCP) and later Chinese ties to the armed ethnic minority separatist groups that descended from the BCP after it was disbanded. Thus, even when Myanmar had warmer bilateral relations with China, engagement on Yangon's part always included a healthy amount of caution and a fair amount of suspicion.[\[20\]](#) Myanmar has a longstanding interest in diversifying its international ties away from China. Until recently many avenues to developing international ties with Western states were closed to Myanmar because of international opposition to Myanmar's military junta. However, political reforms by Myanmar's new civilian government are opening up new diplomatic opportunities that were previously closed to Myanmar.

Myanmar was forced to compromise its principle of strategic neutrality in 1988 after the government's violent suppression of a series of pro-democracy protest called the 8888 Uprising. The suppression of the protest left Myanmar a

pariah state in the West, forcing it into an alliance of convenience with China. Strategic political alignment with China always ran counter to the better judgment of Yangon. By the early 2000's, Myanmar was already trying to reduce its dependence on China by exploring military ties with Russia. [21] In 2011, after Thein Sein became Myanmar's first civilian President in nearly 50 years, diplomatic decision making became a subject to more domestic pressure. It was domestic anti-Chinese sentiments that ultimately led Thein Sein to suspend the Chinese backed Myitsone dam mega project. [22] This decision marked Myanmar's return to a neutrality centered foreign policy and the end of its strategic alignment with China.

Since Myanmar's 2011 transition to a civilian government, it has had substantial engagements with both the US and China. China continues to have a large economic footprint in Myanmar. It supplied 42% of \$33.67 billion of foreign investment between 1988 and 2013. [23] However, many of the Chinese mega projects associated with these investments have met with substantial resistance. Some projects, like the Myanmar-China pipelines and the Letpadaung mine, continued, albeit under increased government scrutiny and public protest. [24][25] On the other hand, the Myitsone Dam and Kunming-Kyaukphyu Railway were outright cancelled, much to the dismay of Beijing. However, the revival of the Chinese backed deep-sea port at Kyaukphyu shows that Myanmar and Chinese cooperation in the area of

infrastructure is set to endure despite changes in the political climate. [26]

China's relations with several of Myanmar's armed ethnic rebel groups are also a constant irritant in bilateral relations. Chinese ties with the rebel groups revolve around the lucrative smuggling of jade, timber, and gems. Illegal timber exports are estimated at nearly \$2 billion per year. [27] Officials in the Myanmar government have accused China of providing assistance to the Kokang rebel group, who has been engaged in intense fighting with Myanmar's military for the past year. [28] China is also suspected of using its influence over other rebel groups, the Wa State Army and Kachin Independence Army, to obstruct Myanmar's efforts to negotiate a nationwide cease fire deal. It has taken issue with the cease fire deal as it may include a provision that would invite Japanese and Western observers into the peace process. [29] Chinese and rebel representatives have denied the charges. The truth of the reports aside, they highlight very real tensions in Myanmar-Sino relations.

As Myanmar's ties to China begin to fray about the edges, their ties with the US are being judiciously woven tighter. The US restored full diplomatic relations with Myanmar in 2012 after ties were severed in 1989. However, relations began recovering in 2000 when the US started providing humanitarian assistance to Burma. US Humanitarian Assistance to Myanmar was increased in 2008, following Cyclone Nargis. Between 2008 and 2012, the US provided \$196 million in assistance to Myanmar and over

\$500 million since 2012.[30] Over the past three years, Western-led financial institutions, the World Bank and Asian Development Bank, have provided more than \$3.8 billion for the development of infrastructure and human services. Trade with Myanmar remains modest, but doubled from 2014 to 2015 to \$371.2 million. While the US has concerns about the pace of reforms, sectarian violence against the Rohingya, and the progress of reconciliation with ethnic groups, the US is employing a calibrated engagement strategy that recognizes the positive steps Myanmar has already undertaken to incentivize further reforms.[31] According to the policy, if Myanmar diligently continues to strengthen its democratic institutions and address the country's unsettled ethnic problems in a proactive and peaceful manner, the U.S. will deepen its ties with Myanmar and thereby, bolstering its capacity to act as a much welcomed counterbalance to China.

Myanmar stands to gain a lot from engagement with both China and the West. How it manages the balance of its relationship with external powers will depend heavily on the decisions of the newly elected government, led by Aung San Suu Kyi's National League for Democracy. Suu Kyi's meeting with Chinese president Xi Jinping in China in summer 2015 highlighted China's desire to build rapport with the new government. Myanmar's strategic location, as the land bridge between South and Southeast Asia, makes it an important stop on China's MSR. Similarly, Myanmar's pipelines make it vital to China's energy security. Thus, China has ample incentive to remain a friend to Myanmar. Myanmar, on the

other hand, is reevaluating the terms of its friendship with Beijing. The potential gains from increasing business ties with the West, the need to correct an over-dependence on Beijing and Washington's steadfast support of Myanmar's democratically elected government puts a slight Western tilt on the balance of Myanmar's hedging strategy.

Conclusion

This analysis demonstrates that the member states of ASEAN are navigating a middle road between the regional interests of the US and China regardless of their perceptions of Chinese power. This approach is referred to as "hedging". This bodes well for the ability of ASEAN to manage great power competition in the region because the use of hedging strategies is not only beneficial for individual ASEAN states, but also the Association as a whole. The fact that all the ASEAN member states are using the same strategy, albeit with substantial individual modifications, lessens the difficulty of reaching a consensus should great power competition begin to pose an imminent threat to the interests of the region. However, this only mitigates and does not eliminate the complications ASEAN's consensus-based decision-making poses to managing great power competition in the region. A glaring example of this is the failure of ASEAN to produce a joint statement during its 2012 summit because of differing opinions on the South China Sea dispute.

Acknowledging its limitations, hedging is a prudent strategy for ASEAN because it is less about countering the US or China and is more focused on managing the inherent risks of relations with any hegemonic or emerging power. Hedging allows ASEAN, as an association and separate member states, to remain nimble in their foreign policy. Therefore, ASEAN can effectively respond to the possibilities of a bellicose China or a countermand of the importance the Obama administration assigned to the region while maximizing the benefits of their engagement with more powerful international actors.

ASEAN member states cannot only be concerned about maximizing the gains they receive from their hedging strategies. They must also be concerned about maintaining an international environment, in which hedging remains a viable foreign policy. Hedging only remains viable if the international arrangement in Southeast Asia is acceptable to both the US and China. Currently, the US cannot accept Chinese hegemony in Asia; therefore, it seeks to preserve its military primacy in the Asia-Pacific. Conversely, China cannot accept continued US primacy in the region and accordingly contests US primacy which, if successful, would leave China well positioned to become a regional hegemon. In order to maintain a regional environment conducive to hedging, ASEAN must support a US presence in the region that is capable of preventing Chinese hegemony, but not strong enough to maintain US primacy.^[32] This is not an easy equilibrium to find. Both China and the US are willing to

divide ASEAN rather than lose the whole region to their rival. In the wake of increasing great power competition, ASEAN must promote policies that support its internal unity.

ASEAN's first step in finding a balance between US primacy and Chinese hegemony is internal. ASEAN must continuously work to increase interregional trade and investment, especially between the more developed ASEAN states and the region's lesser developed states, namely Cambodia, Laos, Myanmar and Vietnam. Increasing inter-ASEAN economic ties goes hand in hand with narrowing the development gap. These economic links encourage the lesser developed countries of ASEAN to link national prosperity to regional interests rather than the good graces of extra regional powers.

The second step is external. ASEAN should not be a party to or condone military adventurism in the region by any external actors. This includes the recent freedom of navigation exercises conducted by the US in the South China Sea. These actions have been tacitly endorsed by Vietnam, while The Philippines seeks to join the US patrols.^{[33][34]} ASEAN can challenge Chinese claims in the South China Sea without antagonizing the behemoth nation and legitimizing its aggressive behavior in the South China Sea, which brings us to the final step.

Finally, ASEAN needs mechanisms to coordinate foreign policy when facing great power competition. Increasing competition will require increased coordination. As it

happens, competition is most definitely increasing at the moment. Some might argue that joint proclamations carry little weight to dissuade the machinations of the world's largest powers. However, the strategic value of ASEAN is increasing by the day, especially for China. With every Maritime Silk Road project completed ASEAN becomes a more important partner in China's economic development and energy security. ASEAN proclamations backed up by unity and resolve carry more weight than the world has yet to realize. This proposal is controversial as it might infringe upon the national sovereignty and independence so jealously guarded by ASEAN Member States. However, a coordinated response will be necessary to disallow the divide and conquer strategies employed in the great games of powerful nations. If a great game is played in Southeast Asia, its nations will be subjected to the interference, subversion and coercion ASEAN was created to guard against